

Message Text

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ACTION H-03

INFO OCT-01 NEA-07 ISO-00 SS-07 NSC-06 /024 W

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R 111545Z NOV 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 5432

LIMITED OFFICIAL USE SECTION 1 OF 2 ALGIERS 2672

DEPARTMENT PLEASE PASS TO SENATOR STEVENSON FOR CLEARANCE

E.O. 11652: N/A

TAGS: ENRG, EFIN, ECRE

SUBJECT: CODEL STEVENSON: CONVERSATION WITH MINISTER OF INDUSTRY
AND ENERGY BELAID ABDESSELAM

1. SUMMARY. MINISTRY OF INDUSTRY AND ENERGY

ABDESSELAM HAD TWO SUBSTANTIVE CONVERSATIONS WITH SENATOR STEVENSON AND CHAIRMAN DUNHAM. IN ADDITION GIVING BRIEF OVERVIEW ALGERIAN INTENTIONS REGARDING LNG DEVELOPMENT, HE EXPRESSED CONCERN AT PFC DELAYS AND EXIM POLICIES. GAVE ASSURANCES ALGERIA CREDIT WORTHY AND SAID CONTINUED AMERICAN PARTICIPATION IN FUTURE LNG PROJECTS DEPENDENT ON FINANCIAL ARRANGEMENTS. SENATOR EXPLAINED THAT BALL IN ALGERIAN COURT REGARDING FINANCING LNG I OVERRUN. BOTH HE AND DUNHAM EXPLAINED IN GENERAL TERMS SOME OF PROBLEMS WHICH COMPLICATED FPC APPROVAL PROCESS. END SUMMARY.

2. ABDESSELAM RECEIVED SENATOR STEVENSON AND FPC CHAIRMAN DUNHAM AFTERNOON NOVEMBER 9 TO CONTINUE DISCUSSION WHICH HAD BEGUN EVENING NOVEMBER 7 DURING DINNER ABDESSELAM HAD GIVEN FOR CODEL. SONATRACH PRESIDENT GHOZALI, MARKETING DIRECTOR AIR LAOUSSINE, INDUSTRY AND ENERGY MINISTRY DIRECTOR GENERAL FOR ENERGY MAKERBA AND AMBASSADOR ALSO PRESENT.

3. DURING CONVERSATION ON NOVEMBER 7 ABDESSELAM HAD DWELT AT SOME LENGTH ON EXIM POLICIES AND SAID HE HAD RECEIVED VARIOUS EXPLANATIONS OF WHAT ALGERIA REGARDED
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AS INCREASINGLY NEGATIVE ATTITUDE OF BANK. ONE

WAS CONGRESSIONAL LIMITATION ON FUNDS, ANOTHER WAS ELECTION-INDUCED SLOWDOWN AND THIRD WAS DOUBTS AS TO ALGERIA'S CREDIT WORTHINESS. HE COULD NOT SPEAK TO FIRST TWO POINTS, BUT IF IT WAS THIRD THAT WAS BOTHERING US, HE COULD TELL US IT UNFOUNDED. AS PRESIDENT HAD SAID RECENTLY, ALGERIANS IN GOOD POSITION AND HAD TWO BILLION SDRS. THEY EXPECTED INCREASE OIL PRODUCTION TO 1.1 MILLION BARRELS PER DAY AND WERE HAVING NO PROBLEMS WITH FINANCIAL OBLIGATIONS.

4. IN NOVEMBER 9 MEETING ABDESSELAM LED OFF BY SAYING THAT HE HAD JUST BEEN GOING THROUGH DOCUMENTS FROM CIEC MEETING IN PARIS. THEY HAD STRESSED THAT COUNTRIES SHOULD DEVELOP THEIR RESOURCES ON THE ONE HAND AND CONSERVE THEM ON THE OTHER. THE ALGERIANS HAD PUT INTO OPERATION A PROGRAM WITH OBJECTIVE OF MOBILIZING TOTALITY OF THEIR RESOURCES. HE WAS SPEAKING OF THOSE ALREADY KNOWN AND NOT TAKING INTO ACCOUNT THOSE PRESENTLY UNKNOWN OR ONLY ESTIMATED.

5. ALGERIANS WERE PLANNING TO USE EVERY BIT OF THEIR OIL, GAS AND CONDENSATE. TWO-THIRDS OF THEN KNOWN LNG RESOURCES WERE COMMITTED FOR EXPORT OVER THE NEXT 20 YEARS. APPROXIMATELY ONE-HALF OF THIS AMOUNT WAS PROGRAMMED FOR THE US. IN MAKING SUCH PLANS ALGERIANS WERE PREPARED TO MAKE A CONTRIBUTION TO SUPPLYING THE CONSUMERS OF THE WORLD, BUT THEY WISHED AT THE SAME TIME TO SUPPORT THEIR OWN DEVELOPMENT. MOST OF THE REVENUES FROM PROPOSED EXPORTS WERE ALREADY EARMARKED FOR SPECIFIC PROJECTS.

6. THESE PLANS DID NOT PREVENT ALGERIANS FROM CONTINUING TO EXPLORE FOR MORE RESOURCES. ACCORDING TO THEIR STUDIES, ADDITIONAL GAS RESOURCES COULD BE ON THE ORDER OF 2 TO 4 TRILLION CUBIC METERS--THAT IS, EQUAL TO OR DOUBLE KNOWN RESERVES. THERE WAS SOME DATA TO THIS EFFECT AVAILABLE ALREADY BUT IT WAS NOT ENOUGH TO PERMIT THEM TO SAY THEIR ESTIMATES WERE PROVEN. PROSPECTING TO DATE WAS NOT SUFFICIENT.

7. ABDESSELAM SAID ALGERIANS WERE NOT CONCERNED ABOUT LIMITED OFFICIAL USE

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FUTURE AVAILABILITIES BUT WOULD RATHER BASE COMMITMENTS ON WHAT WAS KNOWN. NOW THEY WAITED FOR US, HOPING FOR A DECISION TO BE TAKEN BY FPC. MEANWHILE THEY HAD STARTED PROJECTS WITHOUT WAITING FOR APPROVAL. THEY WERE TAKING STEPS TO EXTRACT AND PROCESS GAS. MOST ALGERIAN GAS WAS WET AND CONTAINED CONDENSATE. THEY WERE PLANNING TO EXTRACT CONDENSATE AND EITHER EXPORT OR REINJECT THE GAS.

8. PIPELINES WERE UNDER CONSTRUCTION OR ON THE DRAWING BOARDS FOR IMPLEMENTATION OF ALL OF THE CONTRACTS CONCLUDED. LNG PLANTS WERE UNDER CONSTRUCTION. ALGERIANS WERE DETERMINED TO MEET THEIR PRESENT COMMITMENTS THROUGH PLANTS AT ARZEW AND SIKDA. FOR OTHER CLIENTS, ALGERIANS WERE STUDYING ANYOTHER SITE EAST OF ALGIERS (ZAMMOURI EL BAHRI) WHERE ANOTHER LNG PLANT WAS TO BE PUT UP AND AN INDUSTRIAL PORT ESTABLISHED. THE ENGINEERING STUDIES FOR THIS PORT WERE ALMOST COMPLETED.

9. ALGERIANS WOULD LIKE TO SEE AMERICAN COMPANIES TAKE A LARGE PART IN CONSTRUCTION OF THESE PROJECTS BUT IT APPEARED THAT EXIM HAD POLICY OF WAIT AND SEE. HE DID NOT KNOW WHETHER IT RELATED TO OUR PRESENT DOMESTIC SITUATION OR WHETHER IT REFLECTED A NEW POLICY. THE NEXT PLANT IN ARZEW (ARZEW II) WAS TO BE CONSTRUCTED ON THE BASIS OF AN AMERICAN PROCESS. THE PROCESS TO BE USED IN THE OTHERS WOULD DEPEND ON SETTLEMENT OF THE FINANCIAL QUESTION. AIR PRODUCTS HAD NOT YET FOUND FINANCING. ALGERIANS ALSO HAD A PROBLEM WITH EXIM REGARDING FINANCING OF SUPPLEMENTARY CREDITS FOR LNG I. EXIM HAD NOT YET AGREED TO FINANCE ADDITIONAL COSTS AND GOA MIGHT HAVE TO DO THIS ITSELF.

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ACTION H-03

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R 111545Z NOV 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 5433

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10. ABDESSELAM CONTINUED THAT OUR RELATIONS WERE BASED ESSENTIALLY ON GAS AND OIL ALTHOUGH LONG TERM PLANS CALLED FOR INVESTMENTS IN OTHER SECTORS AS WELL.

MANY US COMPANIES WERE SAYING THEY WERE NOT BEING ENCOURAGED BY EXIM. IT WAS TELLING THEM ITS RESOURCES SHOULD BE RESTRICTED TO FINANCING OIL AND GAS PROJECTS. ALGERIA HAD MANY OTHER AREAS IN WHICH US COMPANIES COULD PARTICIPATE, SUCH AS CHEMICALS, TEXTILES AND STEEL. ALGERIANS WANTED TO DEVELOP OUR RELATIONSHIP TO THE FULL AND NOT LIMIT IT TO GAS AND CRUDE OIL. WHETHER THEY COULD DO SO DEPENDED ON WHAT EACH SIDE WANTED TO DO. ALGERIA WAS NOT THE ONLY PARTY, ALTHOUGH WHAT IT WAS DOING ALONE WAS IMPORTANT.

11. ABDESSELAM SAID HE WANTED TO SAY A WORD ABOUT CHEMICO. ALGERIANS HAD GIVEN THAT COMPANY CONTRACT FOR LNG PLANT NO. 1 AT ARZEW ABOUT FOUR YEARS EARLIER. AFTER A CERTAIN TIME THEY HAD NOTED A SLOWDOWN IN PROGRESS. IN MEANTIME THERE HAD BEEN A CHANGE IN OWNERSHIP OF CHEMICO WHICH HAD BROUGHT ABOUT A COMPLETE MANAGEMENT RESHUFFLE. CHEMICO HAD SAID THAT BECAUSE OF THE WORLD SITUATION AND INFLATION IT COULD NOT MEET ITS ORIGINAL PRICE. ALGERIANS HAD INDICATED THEY PREPARED TO DISCUSS INCREASING PRICE, TAKING INTO CONSIDERATION OBJECTIVE CIRCUMSTANCES, BUT IN THEIR DISCUSSIONS (THEY HAD DOCUMENTS TO PROVE IT) THEY REALIZED CHEMICO WANTED TO GET OUR OF ALL ITS RESPONSIBILITIES.
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12. WHILE ALGERIANS WERE READY TO INCREASE FINANCIAL TERMS, THEY WOULD NOT LET CHEMICO ESCAPE RESPONSIBILITY TO BUILD A PLANT ACCORDING TO SPECIFICATIONS AND AGREED SCHEDULE. ALGERIANS HAD TO MEET THEIR OWN OBLIGATIONS TO CUSTOMERS. THESE OBLIGATIONS HAVE BEEN USED BY CHEMICO AS A MEANS OF PRESSURE, AN ACTION WHICH LED ALGERIANS TO GIVE CONTRACT TO ANOTHER AMERICAN COMPANY.

13. ABDESSELAM CONTINUED THAT ALGERIANS HAD ALSO HAD PROBLEM WITH PRITCHARD, WHICH CONSTRUCTING LNG PLANTS AT SKIKDA. THE PRODUCT OF THESE PLANTS WAS TO GO TO CLIENTS IN EUROPE AND TO DISTRIGAS, WHICH HAD A CONTRACT APPROVED BY THE FPC. PRITCHARD HAD SAID AT ONE POINT THAT IT COULD NO LONGER MEET THE CONTRACT PRICE. ALGERIANS HAD SAID THEY PREPARED TO CONSIDER INCREASE IN PRICE, DEPENDING ON ANALYSIS EXPENDITURES OF ORIGINAL FUNDS. THIS OF COURSE WOULD NOT FREE PRITCHARD FROM ITS OTHER OBLIGATIONS. ALGERIANS HAD TAKEN LOOK AND WERE SATISFIED WITH THE BOOKS. THEY HAD AGREED TO ADD MORE MONEY TO THE CONTRACT. ADDITIONAL SUM WAS ON THE ORDER OF \$20 MILLION. THE UK, WHICH WAS FINANCING THE PROJECT, AGREED TO FINANCE ADDITIONAL FUNDS. ALL WENT FORWARD IN GOOD SPIRIT. ALGERIANS STILL HAD PROBLEMS WITH PRITCHARD BUT

HE MENTIONED THIS CASE TO SHOW THAT ALGERIANS WERE NOT INSENSITIVE AND WERE OPENMINDED.

14. ABDESSELAM SAID HE HAD SAID ALL THIS BECAUSE HE HAD HEARD IT SAID IN US THAT GOA DID NOT RESPECT ITS CONTRACTS. IT WAS TRUE THERE HAD BEEN DELAYS HERE AND THERE BUT THEY WERE DUE TO VARIOUS FACTORS, NOT TO ALGERIAN UNWILLINGNESS TO MEET OBLIGATIONS. ALGERIANS HOPED THE SHIPS WOULD GET TO PORT ON TIME. LNG WAS THEIR APOLLO PROJECT.

15. CHAIRMAN DUNHAM SAID HE HOPED TO HAVE TIME TO DISCUSS IN MORE DETAIL QUESTIONS OF PROCEDURES FPC MUST FOLLOW. HE WOULD LIKE TO DISCUSS PROBLEM IN GENERAL HOWEVER. MOST OF QUESTIONS BEFORE FPC CONCERNED DOMESTIC PROBLEM OF PRICE WHICH WERE NOT YET RESOLVED. LNG IMPORTS WERE ALMOST COMPLETELY NEW. THERE WERE MANY LIMITED OFFICIAL USE

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INTERESTS INVOLVED AND ALMOST EVERY QUESTION WHICH CAME BEFORE THE FPC ALSO WENT BEFORE THE COURTS. FPC HAD BEEN TOLD BY THE SUPREME COURT THAT IT HAD MORE CASES BEFORE THAT BODY THAN ANY OTHER US GOVERNMENT AGENCY.

16. ONE REASON FOR DELAY WAS THAT EACH CASE HAD TO BE TREATED AS A CASE IN LAW. FURTHERMORE, SUBJECT WAS NEW AND PRECEDENTS HAD NOT BEEN ESTABLISHED. ABDESSELAM COMMENTED THAT HE HOPED THERE WOULD NOT BE MANY NEW REQUIREMENTS AND NEW FACTORS TO BE TAKEN INTO CONSIDERATION.

17. SENATOR STEVENSON SAID SOME QUESTIONS REGARDING LNG CONTRACTS WERE BEING FACED FOR THE FIRST TIME. ONCE THEY WERE RESOLVED AND PRINCIPLES ESTABLISHED PERHAPS IT WOULD BE EASIER TO SETTLE LATER ONES. ONE OF THESE QUESTIONS WAS THAT OF PRICE. IT WAS NOT CLEAR WHETHER FPC HAD POWER TO APPROVE A CONTRACT WHICH DID NOT HAVE FIXED PRICES. THEREFORE, A FIXED PRICE CONTRACT COULD PERHAPS BE APPROVED MORE QUICKLY THAN AN OPEN-ENDED ONE. ANOTHER QUESTION WAS THE UNCERTAINTY OF SUPPLY, OF FORCE MAJEURE AND POLITICAL INTERRUPTIONS. TO THE EXTENT THE QUESTION WAS EASED BY ASSURANCES REGARDING SUPPLY, APPROVAL MIGHT BE EASED.

18. REGARDING EXIM BANK, SENATOR SAID BANK HAD NEW MANAGEMENT WHICH WAS TAKING CLOSE LOOK AT PAST PRACTICES. IT HAD \$30 BILLION GLOBAL CEILING AND SOME \$800 MILLION HAD ALREADY BEEN EARMARKED FOR ALGERIA, MAKING LATTER ONE OF ITS BIGGEST CUSTOMERS. BANK SIMPLY DID NOT HAVE FUNDS TO FINANCE EVERYTHING AND WAS ALREADY HEAVILY EXPOSED IN ALGERIA. THIS WAS NOT TO SAY MORE LOANS WOULD

NOT BE FORTHCOMING, BUT BANK HAD TO CONSIDER DEMANDS
FROM ALL OVER THE WORLD.

19. UNDER CONGRESSIONAL ADMONITION, BANK WAS SCRUPULOUSLY
TRYING TO AVOID COMPETING WITH PRIVATE BANKS. BEFORE
MAKING A LOAN ITS MANAGEMENT WANTED TO BE SURE THAT
WITHOUT ITS FINANCING PROJECT WOULD NOT GO AHEAD. HE
COULD NOT SPEAK FOR THE BANK BUT ASSUMED SECURITY OF
SUPPLY WAS ALSO A CONSIDERATION.

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20. AS FOR LNG I, US HAD SPECIAL INTEREST IN FINANCING
PROJECT WHICH WOULD SUPPLY GAS TO DOMESTIC MARKET. HE
WAS TOLD DELAY ON FINANCING OVERRUN WAS DUE TO
ALGERIAN FAILURE TO SUPPLY INFORMATION TO EXIM. HE DID
NOT WANT TO SUGGEST BANK WOULD TAKE ONE POSITION OR
ANOTHER, AND HE DID NOT KNOW NATURE OF INFORMATION
REQUIRED, BUT HE UNDERSTOOD ITS LACK OF REASON FOR DELAY.

21. ABDESSELAM SAID HE HAD JUST WANTED TO EXPLAIN HOW
ALGERIANS VIEWED RELATIONSHIP WITH USG AND EXIM. IT
WENT WITHOUT SAYING THESE MATTERS TO BE DISCUSSED BY
TECHNICIANS, BUT IN GENERAL IF ALGERIANS COULD NOT FIND
MEANS TO FINANCE WITH EXIM, THEY WOULD HAVE TO LOOK
ELSEWHERE. PARKER

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